

## EU Taxonomy

# TRANSFORMATION OF AVIATION REQUIRES INVESTMENT

The EU Taxonomy defines sustainable economic activity and aims to stimulate private investment. The Taxonomy is also of central importance for climate protection in the aviation industry. However, the requirements are becoming increasingly unrealistic and are distorting competition.

In the Taxonomy Regulation presented in June, the European Commission expanded the scope to manufacturing, leasing, and operation of aircraft whereas previously, only airport infrastructure was included. The expansion to include modern aircraft and Sustainable Aviation Fuels (SAF) is a logical development. All are effective levers for transitioning to a carbon-neutral aviation industry. The financing and promotion of these technologies can therefore be classified as sustainable investment.

The use of SAF and the procurement and leasing of new aircraft are very costly. According to a recent study, European airlines will need to raise an additional 820 billion euros to achieve carbon neutrality by 2050. Access to capital markets and investment funds is crucial for these enormous expenditures, which is why aviation must be included in the Taxonomy.

### Balancing ambition and feasibility for climate protection

In its proposal, the European Commission defines criteria for determining the extent to which an economic activity is or is not considered sustainable. To ensure that the Taxonomy has the desired effect, it is important that the specifications are realistic and promote fair competition. The assessment criteria for aviation are exceedingly ambitious by current standards and, in some cases, unattainable. For instance, the requirement for emission-free aircraft is an unrealistic expectation.

Another example is the “one-in-one-out” rule for fleet modernization, which stipulates that for every newly purchased aircraft, a comparable previous model must be scrapped. Only then is operation of a new aircraft fully Taxonomy-compliant. This means that for the deployment

of a newly purchased aircraft, a comparable previous model must be retired. Such a requirement unnecessarily hinders airlines’ ability to finance more sustainable growth.

The same challenge applies to the mandated use of SAF in flight operations. To meet the Taxonomy criteria, older aircraft must operate with an average of 9 percent SAF starting as early as 2024 – with this percentage increasing by two points each year. Furthermore, new, low-emission aircraft must be fueled with an average of at least 15 percent SAF starting in 2030, with this target value also increasing by two percentage points annually in subsequent years.

### SAF incentives crucial for market development

In particular, the short-term rates of increase for the use of SAF are difficult to achieve in the foreseeable future, due to limited availability and high prices of SAF. Simply setting politically motivated targets is insufficient to develop a competitive and cost-effective SAF market. Targeted support, such as the US Inflation Reduction Act (IRA), which provides incentives for the production and use of SAF, is needed.

The Taxonomy plays an important role in achieving climate targets in aviation. It is crucial that EU airlines are not disadvantaged compared to non-European competitors in terms of operations and financing. The expansion of state airlines outside of the EU neither serves the climate nor the European economy. Being able to raise capital more easily in high-revenue intercontinental traffic and bypassing the EU Taxonomy leads to carbon leakage, but also undermines the success of the long-term success of the Green Deal. This is a case of overreach by the EU.